



## STATE BOARD OF EQUALIZATION STAFF LEGISLATIVE BILL ANALYSIS

Date Amended:	<b>7/20/01</b>	Bill No:	<b>AB 585</b>
Subject:	<b>CPA Qualifications</b>	Author:	<b>Nation</b>
Board Position:	<b>Board-sponsored</b>	Related Bills:	<b>SB 133 (Figueroa)</b>

### BILL SUMMARY

This bill would modify the exam, education, and experience requirements for a certified public accountant (CPA) candidate and would create a peer review process for attest firms.

### ANALYSIS

#### Current Law

Under existing law, to be licensed as a CPA, a candidate must pass the Uniform CPA examination, meet specified experience requirements, pass a professional ethics exam and pay the appropriate fees. Once licensed, a CPA must also meet continuing education requirements.

The Uniform CPA examination is given twice each year; in the first week of May and November. The exam is a two-day exam, consisting of four subjects: Business Law and Professional Responsibilities, Auditing, Accounting and Reporting, and Financial Accounting and Reporting. Candidates may take the four subject parts in any order. Candidates who have not passed any subjects are required to take at least two subjects. The minimum passing score in each subject is 75.

A candidate who passes two or more subjects of the examination receives conditional credit for those subjects. Candidates with conditional credit can be re-examined in the remaining subject(s) within a period of three years (six subsequent exams). If the candidate passes the remaining subject(s) within the conditional period, the candidate is considered to have passed the examination. Candidates who fail to pass the remaining subject(s) within three years forfeit all conditional credit.

In California, a candidate must satisfy one of the following education requirements to be admitted to the exam. These are currently the only education requirements for the CPA license:

- Complete a baccalaureate degree (BA) that includes specific core courses of 35 semester units of business subjects and 10 semester units of accounting and/or auditing subjects.
- Complete 120 semester units of course work including the core course requirements (but no degree).
- Complete the equivalent of either of the first two requirements at a foreign college or university.

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- Complete Board of Accountancy specified preliminary examinations or be a member of a Board recognized foreign accounting body.

The candidate must self certify that the education requirements have been met as of the date of application to the exam.

A candidate for licensure is required to meet both a time and experience requirement. Generally, a candidate for licensure must have three years' experience working in the employ of a person licensed or otherwise having comparable authority under the laws of any state or country to engage in the practice of public accountancy. Experience in private or governmental accounting or auditing employment may be qualified experience provided that the work was performed under the direct supervision of an individual licensed as a CPA. One year of the experience may be waived for candidates that are graduates of accredited colleges. The experience must be performed in accordance with applicable professional standards.

Candidates must generally complete at least 500 hours of audit, review, or compilation experience. The experience must demonstrate an understanding of the requirements of planning and conducting an audit with minimum supervision which results in full-disclosure financial statements, including all of the following:

- Experience in applying a variety of auditing procedures and techniques to the usual and customary financial transactions recorded in accounting records.
- Experience in preparing audit working papers covering examination of the accounts usually found in accounting records.
- Experience in planning the program of audit work including the selection of the procedures to be followed.
- Experience in preparing written explanations and comments on the finding of the examination and the content of the accounting records.
- Experience in preparing and analyzing financial statements together with explanations and notes thereon.

### **Proposed Law**

This bill would:

- **Modify the exam requirements.** This bill would allow the Board of Accountancy to adopt regulations specifying the standards for passage of the examination and for reexamination. The education requirements for taking the exam would remain the same. Transitional rules would be provided so that candidates who already have conditional credit when the new law and regulations become effective would be allowed to pass the remaining parts under the prior law and regulations.

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- **Increase the educational requirements.** Although the education requirement for taking the Uniform CPA Examination would remain the same, under the provisions of this bill, candidates would have two new education options to obtain a license. The first option would require the candidate to have a baccalaureate or higher degree including a minimum of 24 semester units in accounting and 24 semester units in business related subjects. The second option would consist of the same requirements as the first option in addition to the requirement of completing at least 150 semester units of college education.
- **Modify the experience requirement.** The provisions of this bill would no longer require attest experience for licensure. Candidates would have the option of completing two years of general experience if they qualify under the first option for education, or only one year of general experience if they qualify under the second option for education. The general experience requirement would consist of professional experience providing any type of services or advice using accounting, attest, compilation, management advisory, financial advisory, tax, or consulting skills performed in accordance with professional standards. The experience must be supervised and verified, under penalty of perjury, by a licensed CPA.
- **Provide transitional rules for the education and experience requirements.** Under the provisions of this bill, there would be a four-year transition period where candidates could choose to qualify under either the old or new education and experience requirements. However, candidates would not be permitted to combine the old education requirements with the new experience requirements.
- **Establish a peer review requirement for attest firms.** This bill would require firms that perform audits, reviews, or examinations of prospective financial information (attest services) to receive a comprehensive assessment of its reports, work papers, auditing procedures, and quality controls by a peer review. Acceptable peer reviews could be obtained from any provider as long as the peer review was performed in accordance with professional standards and the Board of Accountancy approves the provider.

## COMMENTS

1. **Sponsor and Purpose.** This bill is co-sponsored by the Board of Equalization and the California Society of Certified Public Accountants. The purpose of this bill is to remove some of the barriers to entry for CPA candidates by modifying the examination and experience requirements.
2. **Summary of July 20 amendments.** The most recent changes to the bill add language providing a CPA candidate who has already passed the Uniform CPA examination, but has not yet obtained a CPA license, to present evidence of completion of the education requirements at the time of application for licensure rather than prior to the admission to the examination. This amendment allows CPA candidates who have already passed the exam to use the new rules for licensure provided in this bill. An additional amendment provides that a candidate who applied and sat for at least two parts of the exam before December 31, 2001 may

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still use the old rules for licensure during the transition period (before January 1, 2006).

- 3. Prior amendments.** Prior amendments to this bill consisted of adding language indicating that it is the intent of the Legislature that the new education and experience requirements for the CPA license to be established by this bill not be revised or amended prior to the next review of the California Board of Accountancy. The intent language would also limit that review to implementation of the new licensure requirements, require the California Board of Accountancy to collect statistical information on the number of applicants applying for and/or passing the exam under Sections 5092 and 5093, and require the Board of Accountancy to develop regulations and procedures to implement the peer review requirement mandated by Section 5076. Other amendments to this bill consisted of adding additional education and experience provisions necessary for candidates to qualify for licensure. In addition to the 150 semester unit educational requirement and the 1 year general experience requirement provided in the original version of the bill, candidates would also have the option of obtaining a baccalaureate degree (generally 120 semester units) with 24 accounting units and 24 business units and obtaining 2 years of general experience (rather than 1). Additionally, the provisions of this bill were double joined with Senate Bill 133 (Figueroa) so that the provisions of either bill would only become operative if both bills are enacted.
- 4. This bill will allow more Board auditors to obtain licensure as a CPA.** For many CPA candidates, the attest experience is the most difficult to obtain since only 13 percent of CPAs consider audits to be their primary area of practice and auditing skills and knowledge must be frequently updated. For Board employees, the attest experience is very difficult to obtain. Typically, Board employees conduct audits to verify that specific taxes or fees administered by the Board are properly reported. Board auditors do not perform financial statement audits that are part of the attest experience requirement. However, Board auditors may participate in the Board's CPA program in order to fulfill the attest experience requirement. This program allows Board auditors to perform financial statement audits under the supervision of a licensed CPA employed by the Board. Due to the constraints of finding taxpayers willing to participate in this voluntary program and the limited number of CPA supervisor/leads, it takes an extended period of time for candidates to gain the required experience. This bill would provide that the new experience requirement would consist of either 1 or 2 years of professional experience providing any type of services or advice using accounting, attest, compilation, management advisory, financial advisory, tax, or consulting skills performed in accordance with professional standards. The experience must be supervised and verified, under penalty of perjury, by a licensed CPA. Auditors with the Board should be able to obtain this type of experience conducting routine audits and examinations that are part of their normal duties.

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- 5. Provisions of this bill should improve recruitment and retention efforts.** When a student earns a degree in accountancy, employment opportunities may include public accounting and governmental accounting. Currently, public accounting offers the benefit of more easily obtaining the necessary attest experience to become licensed. While the attest experience can be obtained through employment with a governmental agency, it is generally more difficult and lengthy to obtain. Some employees have left the Board to complete the experience requirement at a public accounting firm. The provisions of this bill will allow students to choose governmental accounting for employment and remain on the same footing as those students who choose public accounting for employment. This bill should assist the Board's efforts to retain quality employees and recruit the best candidates for employment vacancies.
- 6. Education requirements could increase.** Current law requires that a candidate must meet one of the four education requirement described earlier in this analysis. The provisions of this bill would allow a candidate the option to complete 150 semester units with a baccalaureate or graduate degree from an accredited college or university. However, candidates may still qualify to take the exam with only 120 semester units and obtain the additional 30 semester units after taking the exam. This would allow candidates to choose a specialized field of study for their additional required coursework, such as tax, auditing, financial analysis, or any number of other related specialties. This should result in better educated candidates.
- 7. Related legislation.** Senate Bill 133 (Figueroa) contains the same language as this bill. SB 133 also contains language extending the sunset date for the Board of Accountancy and requires that the Board of Accountancy maintain a contingent fund reserve of six months expenditures rather than three months. Both AB 585 and SB 133 contain double-joining language that would require both bills to be enacted in order for the provisions of either bill to become operative.

## **COST ESTIMATE**

The Board is currently authorized to approve payment of a bonus in the amount of \$3,600, paid in three \$1,200 installments, to eligible employees who meet the following requirements:

- Possess verification of passing scores of at least 75 percent in all four parts of the CPA Examination.
- Are appointed on a permanent full-time basis.
- Are appointed to a classification which includes minimum qualification professional accounting experience or successful completion of prescribed professional accounting courses.
- Perform internal auditing or fiscal examination as a major duty or supervise employees performing such duties.

The cost impact of this bill would depend on the number of employees that would opt to take the exam once the experience requirements were changed.

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**REVENUE ESTIMATE**

The provisions of this bill would not impact the state's revenue.

Analysis prepared by:	Bradley E. Miller	445-6662	8/17/01
Contact:	Margaret S. Shedd	322-2376	

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